

IROQUOIS SCHOOL DISTRICT NO. 2-3

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED

JUNE 30, 2008

IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2008

Board Members:

Greg Blue - Board President
Greg Bich - Vice President
Jerrad Fast
Terry Schoenfelder
Greg Schortzmann

Superintendent:

Lori Wehlander

Business Manager:

Jill Cundy

IROQUOIS SCHOOL DISTRICT NO. 2-3
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

School Board
Iroquois School District No. 2-3
Kingsbury County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Iroquois School District No. 2-3, Kingsbury County, South Dakota, as of June 30, 2008 and for the year then ended which collectively comprise Iroquois School District's basic financial statements and have issued our report thereon dated January 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iroquois School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iroquois School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Iroquois School District No. 2-3, and is not intended to be and should not be used by anyone other than these specified agencies. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Hawington & Associates, LLP

Huron, South Dakota
January 14, 2009

IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS:

There are no prior written audit comments.

PRIOR OTHER AUDIT FINDINGS:

There are no prior written audit comments.

IROQUOIS SCHOOL DISTRICT NO. 2-3
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

CURRENT FEDERAL AUDIT FINDINGS:

There are no written current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

There are no written current other audit findings to report.

CLOSING CONFERENCE

The closing conference was held on January 14, 2009 with Jill Cundy, Business Manager and Mark Sampson, Superintendent.

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INDEPENDENT AUDITOR'S REPORT

School Board
Iroquois School District No. 2-3
Kingsbury County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Iroquois School District No. 2-3, Kingsbury County, South Dakota, as of June 30, 2008 and the year then ended which collectively comprise Iroquois School District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of Iroquois School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Iroquois School District No. 2-3 as of June 30, 2008 and the year then ended and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 14, 2009 on our consideration of Iroquois School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and, should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 50 through 54, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Harrington & Associates, LTD.

Huron, South Dakota
January 14, 2009

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Iroquois School District 2-3 annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the School's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$209,615 less than the \$2,121,638 governmental and business-type program expenditures.
- The total cost of the School's programs increased by approximately 19%. This was primarily due to insurance costs, payroll increases, new curriculum, buildings improvements, substantial increases in transportation and heating costs and minor increases in all other areas.
- The general fund reported a \$222,868 current year decrease due to the various reasons such as normal pay increase to teaching staff, less students so less state aid, fewer games due to consolidation of football and no junior varsity basketball so less in admissions, more in substitution pay, and more in fuel costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the school is the Food Service Operation.
 - Fiduciary fund statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-1 summarizes the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of Iroquois School's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds and the fiduciary component units)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs	Activities the School operates similar to private businesses, the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	*Statement of Fiduciary Net Assets *Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Increases or decreases in the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes.

The School has three kinds of funds:

- **Governmental Funds** – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Proprietary Funds** – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the School.
- **Fiduciary Funds** – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's combined net assets increased as follows:

**Table A-1
Iroquois School District 2-3**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	\$ 1,842,900	\$ 1,648,252	\$ 6,974	\$ 5,170	\$ 1,849,874	\$ 1,653,422
Capital Assets	1,454,600	1,399,902	13,544	11,609	1,468,144	1,411,511
Total Assets	<u>\$ 3,297,500</u>	<u>\$ 3,048,154</u>	<u>\$ 20,518</u>	<u>\$ 16,779</u>	<u>\$ 3,318,018</u>	<u>\$ 3,064,933</u>
Long Term Debt Outstanding	\$ 652,340	\$ 575,269	\$ —	\$ —	\$ 652,340	\$ 575,269
Other Liabilities	152,424	187,109	1,084	—	153,508	187,109
Total Liabilities	<u>804,764</u>	<u>762,378</u>	<u>1,084</u>	<u>—</u>	<u>805,848</u>	<u>762,378</u>
Net Assets:						
Invested in Capital Assets	805,960	869,967	13,544	11,609	819,504	881,576
Restricted	858,057	840,159	5,890	5,170	863,947	845,329
Unrestricted	828,719	575,650	—	—	828,719	575,650
Total Net Assets	<u>\$ 2,492,736</u>	<u>\$ 2,285,776</u>	<u>\$ 19,434</u>	<u>\$ 16,779</u>	<u>\$ 2,512,170</u>	<u>\$ 2,302,555</u>
Beginning Net Assets	<u>\$ 2,352,821</u>	<u>\$ 2,492,736</u>	<u>\$ 20,746</u>	<u>\$ 19,434</u>	<u>\$ 2,373,567</u>	<u>\$ 2,512,170</u>
Increase (Decrease) in Net Assets	<u>\$ 139,915</u>	<u>\$ (206,960)</u>	<u>\$ (1,312)</u>	<u>\$ (2,655)</u>	<u>\$ 138,603</u>	<u>\$ (209,615)</u>
Percentage of Increase (Decrease) in Net Assets	<u>5.9%</u>	<u>(8.3%)</u>	<u>(6.3%)</u>	<u>(13.7%)</u>	<u>5.8%</u>	<u>(8.3%)</u>

The district did not have a significant decrease in net assets between the two years. The district's combined net assets of approximately \$2.3 million is 8.3% smaller than on June 30, 2007. Most of the decrease in the district's financial position came from its governmental activities.

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of general obligation bonds, capital/lease purchase payable and compensated absences payable, have been reported in this manner on the Statement of Net Assets. The difference between the school's assets and liabilities is its net assets.

Changes in Net Assets

The district's total revenues (excluding transfers) totaled \$1,912,023 (See Table A-4.) This was a .4% decrease. Approximately 60% of the district's revenue comes from property and other taxes, with another 26% from state aid. (See Table A-2)

Table A-2
Iroquois School District 2-3
Sources of Revenues
Fiscal Year 2008

Taxes	\$ 1,149,129	60.10%
State Sources	506,579	26.49%
Operating Grants & Contributions	159,213	8.33%
Charges for Services	60,696	3.18%
Miscellaneous	22,398	1.17%
Unrestricted Investment Earnings	<u>14,008</u>	<u>0.73%</u>
Total Revenue	<u>\$ 1,912,023</u>	<u>100.00%</u>

The district's total expenses totaled \$2,121,638. (See Table A-4.) This was a 19% increase. The School's expenses cover a range of services, encompassing instruction, support services, cocurricular activities and food services. (See Table A-3)

Table A-3
Iroquois School District 2-3
Statement of Expenditures
Fiscal Year 2008

Instruction	\$ 1,149,453	54.18%
Support Services	756,661	35.66%
Community Services	7,348	.35%
Interest on Long Term Debt	26,514	1.25%
Cocurricular Activities	99,411	4.69%
Food Service	<u>82,251</u>	<u>3.88%</u>
Total Expenditures	<u>\$ 2,121,638</u>	<u>100.00%</u>

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENTAL ACTIVITIES:

Table A-4 and the narrative that follows consider the operations of the governmental activities.

Table A-4
Iroquois School District 2-3
Changes in Net Assets

	Total Governmental Activities		Total Business-Type Activities		Total		Total Percentage Change
	2007	2008	2007	2008	2007	2008	
Revenues							
Program Revenues	\$ 29,161	27,376	\$ 33,364	\$ 33,320	\$ 62,525	\$ 60,696	-2.9%
Charges for Services	134,101	130,868	26,231	28,345	160,332	159,213	-0.7%
Operating Grants and Contributions							
General Revenues	1,095,283	1,149,129	-	-	1,095,283	1,149,129	4.9%
Taxes	531,236	506,148	427	431	531,663	506,579	-4.7%
Revenue State Sources	56,746	22,398	-	-	56,746	22,398	-60.5%
Other General Revenues	13,998	14,008	-	-	13,998	14,008	0.1%
Unrestricted Investment Earnings	1,860,525	1,849,927	60,022	62,096	1,920,547	1,912,023	-0.4%
Total Revenues							
Expenses							
Instruction	973,953	1,149,453	-	-	973,953	1,149,453	18.0%
Support Services	619,597	756,661	-	-	619,597	756,661	22.1%
Community Services	-	7,348	-	-	-	7,348	100.0%
Interest on Long Term Debt	30,960	26,514	-	-	30,960	26,514	-14.4%
Cocurricular Activities	81,100	99,411	-	-	81,100	99,411	22.6%
Food Service/Concessions	-	-	76,334	82,251	76,334	82,251	7.8%
Total Expenses	1,705,610	2,039,387	76,334	82,251	1,781,944	2,121,638	19.1%
Excess (Deficiency) Before Special Items and Transfers	154,915	(189,460)	(16,312)	(20,155)	138,603	(209,615)	-251.2%
Transfers	(15,000)	(17,500)	15,000	17,500	-	-	0.0%
Increase (Decrease) in Net Assets	\$ 139,915	\$ (206,960)	\$ (1,312)	\$ (2,655)	\$ 138,603	\$ (209,615)	-251.2%
Ending Net Assets	\$ 2,492,736	\$ 2,285,776	\$ 19,434	\$ 16,779	\$ 2,512,170	\$ 2,302,555	-8.3%

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues for the School's governmental activities decreased .6% while expenses for governmental activities increased by 19.6%. The most remarkable decrease in revenue is approximately 60% decrease in other general revenues mainly due to a lease/purchase financing agreement in the amount of \$28,844 for computers obtained in FY07 but not in FY08. Also the school received less in state aid in FY08 due to declining enrollment between the two years. The percentage increase in expenses was due to a number of issues but the most remarkable increase was due to higher fuel costs for heating and transportation in FY08 and more improvements purchased by the Capital Outlay Fund in FY08.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities (Food Service Operation) increased by approximately 3.5% to \$62,096 and expenses increased by approximately 7.8% to \$82,251. The main factor contributing to the increase in revenues was because the school received approximately \$2,000 more in federal money in FY08. The increase in expenses was mainly due to the higher cost of food.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The Special Education, Pension and Debt Service Funds had an increase in fund balance for the year by \$26,554, \$1,033, and \$14,120, respectively. General Fund had a decrease of \$222,868 and the Capital Outlay Fund had a decrease of \$59,605.

BUDGETARY HIGHLIGHT

Over the course of the year, the School Board revised the School budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

Budget increases were due to the increases in instruction due to new curriculum, football coop expenses, improvements to the gym and fuel and transportation costs.

CAPITAL ASSET ADMINISTRATION

By the end of 2008, the district had invested \$1,411,511 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-5.) There is a 3.86% decrease in net capital assets for the governmental and business-type activities mainly due to the normal increase in accumulated depreciation.

IROQUOIS SCHOOL DISTRICT NO. 2-3 MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-5
IROQUOIS DISTRICT - Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2007	2008	2007	2008	2007-2008	2007-2008
Land	\$ 16,630	\$ 16,630	\$ -	\$ -	\$ -	0.00%
Buildings	1,345,520	1,308,338	-	-	(37,182)	-2.76%
Improvements Other Than Buildir	15,300	13,770	-	-	(1,530)	-10.00%
Machinery and Equipment	77,150	61,164	13,544	11,609	(17,921)	-19.76%
Total Capital Assets (Net)	\$ 1,454,600	\$ 1,399,902	\$ 13,544	\$ 11,609	\$ (56,633)	-3.86%

This year's major capital asset purchases included an electronic sign, bus cameras and library books.

LONG-TERM DEBT

At year-end the School had \$575,269 in long-term obligations. See Table A-6 below.

Table A-6
IROQUOIS SCHOOL DISTRICT - Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2007	2008	2007	2008	2007-2008	2007-2008
Bonds Payable	\$ 620,000	\$ 520,000	\$ -	\$ -	(100,000)	-16.13%
Capital Purchase Payable	28,640	9,935	-	-	(18,705)	-65.31%
Compensated Absences	3,700	3,982	-	-	282	7.62%
Early Retirement Payable	-	41,352	-	-	41,352	100.00%
Total Outstanding Debt and Obligations	\$ 652,340	\$ 575,269	\$ -	\$ -	\$ (77,071)	-11.81%

Compensated absences payable is sick leave earned but not taken by eligible employees.

During fiscal year 2008, the School paid \$118,704 in principal and \$26,514 in interest on their bonds and capital purchase payables.

The School also maintains an early retirement plan, which allows those meeting certain qualifications, to retire early and receive up to 70% of their last year's salary in one lump sum or in equal payments spread over seven months. This plan allows the school to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers. Three teachers chose the early retirement plan as of the end of FY08.

**IROQUOIS SCHOOL DISTRICT NO. 2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School's current economic position has shown little change. The School can generate funding by two main sources. They include property taxes and state aid. Total property valuation does increase slightly each year to generate additional local revenue. The School's total property valuation for the 2007 taxes payable in 2008 is \$150,992,863. The School did experience an increase in total property valuation of \$14,617,081 from the prior year. The increase in property valuation increases the amount of revenue generated from property taxes by approximately \$26,930, however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. State aid is calculated by taking your Average Daily Membership (ADM) by the state aid per pupil amount and subtracting your local effort. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,529 per pupil. The allocation for the next year has been increased by 3%; however the school had experienced a reduction of approximately 13 students average daily membership (ADM) per year for the three years. This reduction in ADM will result in the school receiving less overall revenue from the State of South Dakota even with the increase in the allocation.

The school's enrollment for the last three years has been as follows:

**Table A-7, Iroquois School District ADM
For the Last Three Years**

<u>YEAR</u>	<u>ADM</u>	<u>Percent</u>
2008	158	1.3
2007	156	(20.4%)
2006	196	(6.7%)

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Iroquois School's Business Office, 111 Washita St. W. PO Box 98, Iroquois SD 57353.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF NET ASSETS
JUNE 30, 2008

	PRIMARY GOVERNMENT		
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
	ACTIVITIES	ACTIVITIES	
ASSETS:			
Cash and Cash Equivalents	\$ 1,085,021	\$ 3,876	\$ 1,088,897
Taxes Receivable	516,262	-	516,262
Incidental Imprest Account	2,500	-	2,500
Inventories	-	1,294	1,294
Other Assets	44,469	-	44,469
Capital Assets:	16,630	-	16,630
Land	1,383,272	11,609	1,394,881
Other Capital Assets, Net of Depreciation			
TOTAL ASSETS	\$ 3,048,154	\$ 16,779	\$ 3,064,933
LIABILITIES:			
Accounts Payable	29,328	-	29,328
Other Current Liabilities	157,781	-	157,781
Noncurrent Liabilities:			
Due Within One Year	151,287	-	151,287
Due in More than One Year	423,982	-	423,982
TOTAL LIABILITIES	762,378	-	762,378
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	869,967	11,609	881,576
Restricted for:			
Capital Outlay	370,480	-	370,480
Special Education	142,892	-	142,892
Pension	72,481	-	72,481
Debt Service	254,306	-	254,306
Food Service	-	5,170	5,170
Unrestricted	575,650	-	575,650
TOTAL NET ASSETS	2,285,776	16,779	2,302,555
TOTAL LIABILITIES AND NET ASSETS	\$ 3,048,154	\$ 16,779	\$ 3,064,933

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS / PROGRAMS	PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES
Primary Government:		
Governmental Activities:	\$ 1,149,453	\$ -
Instruction	756,661	16,852
Support Services	7,348	-
Community Service	26,514	-
Interest on Long Term Debt	99,411	10,524
Cocurricular Activities		
	<u>2,039,387</u>	<u>27,376</u>
Total Governmental Activities		
Business-Type Activities	82,251	33,320
Food Service		
	<u>82,251</u>	<u>33,320</u>
Total Business-Type Activities		
	<u>\$ 2,121,638</u>	<u>\$ 60,696</u>
Total Primary Government		

The accompanying notes are an integral part of these financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
PROGRAM REVENUES		PRIMARY GOVERNMENT		
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ 130,868	\$ -	\$ (1,018,585)	\$ -	\$ (1,018,585)
-	-	(739,809)	-	(739,809)
-	-	(7,348)	-	(7,348)
-	-	(26,514)	-	(26,514)
-	-	(88,887)	-	(88,887)
130,868	-	(1,881,143)	-	(1,881,143)
28,345	-	-	(20,586)	(20,586)
28,345	-	-	(20,586)	(20,586)
\$ 159,213	\$ -	\$ (1,881,143)	\$ (20,586)	\$ (1,901,729)

GENERAL REVENUES AND TRANSFERS:

Taxes:				
Property Taxes	\$ 1,127,437	\$ -	\$ 1,127,437	
Gross Receipts Taxes	21,692	-	21,692	
Revenue from State Sources:				
State Aid	506,148	431	506,579	
Unrestricted Investment Earnings	14,008	-	14,008	
Other General Revenues	22,398	-	22,398	
Transfers	(17,500)	17,500	-	
Total General Revenues and Transfers	1,674,183	17,931	1,692,114	
Change in Net Assets	(206,960)	(2,655)	(209,615)	
Net Assets-Beginning	2,492,736	19,434	2,512,170	
Net Assets-Ending	\$ 2,285,776	\$ 16,779	\$ 2,302,555	

IROQUOIS SCHOOL DISTRICT NO. 2-3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND
ASSETS:			
Cash and Cash Equivalents	\$ 202,403	\$ 399,808	\$ 149,317
Taxes Receivable--Current	266,277	81,795	76,735
Taxes Receivable--Delinquent	4,551	617	447
Due From Other Government	39,421	-	5,048
Advance Payments	2,500	-	-
TOTAL ASSETS	\$ 515,152	\$ 482,220	\$ 231,547
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	-	29,328	-
Contracts Payable	108,240	-	8,304
Payroll Deductions and Withholding and Employer Matching Payable	31,362	-	3,169
Deferred Revenue	270,828	82,412	77,182
Total Liabilities	410,430	111,740	88,655
Fund Balances:			
Unreserved Fund Balances:			
Designated for Cash Flow	104,722	86,305	-
Undesignated	-	284,175	142,892
Total Fund Balances	104,722	370,480	142,892
TOTAL LIABILITIES AND FUND BALANCES	\$ 515,152	\$ 482,220	\$ 231,547

The accompanying notes are an integral part of these financial statements.

PENSION FUND	BOND REDEMPTION FUND	TOTAL GOVERNMENTAL FUNDS
\$ 79,187	\$ 254,306	\$ 1,085,021
21,311	63,938	510,056
118	473	6,206
-	-	44,469
-	-	2,500
<u>\$ 100,616</u>	<u>\$ 318,717</u>	<u>\$ 1,648,252</u>

-	-	29,328
-	-	116,544
6,706	-	41,237
21,429	64,411	516,262
<u>28,135</u>	<u>64,411</u>	<u>703,371</u>

24,200	-	215,227
48,281	254,306	729,654
<u>72,481</u>	<u>254,306</u>	<u>944,881</u>
<u>\$ 100,616</u>	<u>\$ 318,717</u>	<u>\$ 1,648,252</u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds			\$ 944,881
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	The cost of capital assets are Accumulated depreciation is Net	2,087,368 <u>(687,466)</u>	1,399,902
Long-term liabilities, including bonds payable, capital purchase payable, accrued leave payable and early retirement payable are not due and payable in the current period and therefore are not reported in the funds.	Accrued leave payable Bonds Payable Capital Purchase Payable Early Retirement Payable Net	(3,982) (520,000) (9,935) <u>(41,352)</u>	(575,269)
Assets such as taxes receivable (delinquent) are not available to pay for the current period expenditures, and therefore are deferred in the funds.	General Fund receivable General Fund delinquent Net	266,277 <u>4,551</u>	270,828
	Capital Outlay Fund receivable Capital Outlay Fund delinquent Net	81,795 <u>617</u>	82,412
	Special Education fund receivable Special Education fund delinquent Net	76,735 <u>447</u>	77,182
	Pension fund receivable Pension fund delinquent Net	21,311 <u>118</u>	21,429
	Bond Redemption fund receivable Bond Redemption fund delinquent Net	63,938 <u>473</u>	64,411
Net Assets-Governmental Funds			<u>\$ 2,285,776</u>

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND
Revenues:			
Revenue from Local Sources:			
Taxes:	\$ 599,134	\$ 177,058	\$ 154,672
Ad Valorem Taxes	1,398	280	235
Prior Years' Ad Valorem Taxes	21,692	-	-
Gross Receipts Taxes	991	290	240
Penalties and Interest on Taxes	3,272	6,281	2,355
Earnings on Investments and Deposits			
Cocurricular Activities:	10,524	-	-
Admissions			
Other Revenue from Local Sources:	16,852	-	-
Services Provided Other LEA's	1,603	-	-
Other			
Revenue from Intermediate Sources:			
County Sources:	16,741	-	-
County Apportionment	2,600	-	-
Revenue in Lieu of Taxes	1,454	-	-
Other Intermediate			
Revenue from State Sources:			
Grants-in-Aid:	506,148	-	-
Unrestricted Grants-in-Aid			
Revenue from Federal Sources:			
Grants-in-Aid:			
Restricted Grants-in-Aid Received from	72,727	-	54,469
Federal Government Through the State	3,672	-	-
Other Federal Revenue			
Total Revenue	\$ 1,258,808	\$ 183,909	\$ 211,971

The accompanying notes are an integral part of these financial statements.

PENSION FUND		BOND REDEMPTION FUND		TOTAL GOVERNMENTAL FUNDS	
\$	43,917	\$	138,349	\$	1,113,130
	52		222		2,187
	-		-		21,692
	67		227		1,815
	1,178		922		14,008
	-		-		10,524
	-		-		16,852
	-		-		1,603
	-		-		16,741
	-		-		2,600
	-		-		1,454
	-		-		506,148
	-		-		127,196
	-		-		3,672
\$	45,214	\$	139,720	\$	1,839,622

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND
Expenditures:			
Instruction:			
Regular Programs:	\$ 362,950	\$ 36,035	\$ -
Elementary	70,399	2,148	-
Middle School	355,671	30,561	-
High School			
Special Programs:			111,996
Programs for Special Education	-	-	-
Educationally Deprived	59,240	-	-
Support Services:			
Support Services - Pupils:			763
Guidance	2,600	-	12,873
Psychological	-	-	27,428
Speech Pathology	-	-	12,508
Student Therapy Services	-	-	-
Support Services - Instructional Staff:			-
Educational Media	50,751	5,788	-
Support Services - General Administration:			-
Board of Education	36,601	1,368	-
Executive Administration	28,787	1,520	-
Support Services - School Administration:			-
Office of the Principal	57,426	-	-
Other	653	-	-
Support Services - Business:			-
Fiscal Services	41,124	4,913	-
Facilities Acquisition and Construction	-	28,578	-
Operation and Maintenance of Plant	160,002	55,111	-
Pupil Transportation	158,620	27,922	-
Support Services - Central:			-
Staff	284	244	-
Support Service - Special Education			14,338
Administrative Costs	-	-	1,998
Transportation Costs	-	-	1,158
Other Special Education Costs	-	-	-
Community Services:			-
Direction	7,348	-	-
Debt Service	-	19,618	-
Cocurricular Activities:			-
Male Activities	23,638	4,832	-
Female Activities	20,430	3,611	-
Transportation	21,707	-	-
Combined Activities	12,936	-	-
	2,823	14,984	-
Capital Outlay	1,473,990	237,233	183,062
Total Expenditures	(215,182)	(53,324)	28,909
Excess of Revenue Over (Under) Expenditures			

The accompanying notes are an integral part of these financial statements.

PENSION FUND		BOND REDEMPTION FUND		TOTAL GOVERNMENTAL FUNDS	
\$	14,058	\$	-	\$	413,043
	2,963		-		75,510
	14,136		-		400,368
	2,605		-		114,601
	2,364		-		61,604
	-		-		3,363
	-		-		12,873
	-		-		27,428
	-		-		12,508
	1,183		-		57,722
	-		-		37,969
	1,295		-		31,602
	2,838		-		60,264
	-		-		653
	-		-		46,037
	-		-		28,578
	-		-		215,113
	-		-		186,542
	-		-		528
	377		-		14,715
	-		-		1,998
	-		-		1,158
	-		-		7,348
	-	125,600	-		145,218
	384		-		28,854
	622		-		24,663
	-		-		21,707
	178		-		13,114
	-		-		17,807
	43,003		125,600		2,062,888
	2,211		14,120		(223,266)

IROQUOIS SCHOOL DISTRICT NO. 2-3
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL FUND	CAPITAL OUTLAY FUND	SPECIAL EDUCATION FUND
Other Financing Sources (Uses):			
Transfer In	9,814	-	-
Transfers Out	(17,500)	(6,281)	(2,355)
Total Other Financing Sources (Uses)	(7,686)	(6,281)	(2,355)
Net Change in Fund Balances	(222,868)	(59,605)	26,554
Fund Balance - Beginning	327,590	430,085	116,338
Fund Balance - Ending	<u>\$ 104,722</u>	<u>\$ 370,480</u>	<u>\$ 142,892</u>

The accompanying notes are an integral part of these financial statements.

PENSION FUND	BOND REDEMPTION FUND	TOTAL GOVERNMENTAL FUNDS
-	-	9,814
(1,178)	-	(27,314)
(1,178)	-	(17,500)
1,033	14,120	(240,766)
71,448	240,186	1,185,647
\$ 72,481	\$ 254,306	\$ 944,881

IROQUOIS SCHOOL DISTRICT NO. 2-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

\$ (240,766)

Total net change in fund balances - governmental funds

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital Outlays	17,807	
Depreciation Expense	<u>(71,376)</u>	
Net		(53,569)

Payment on principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets.

Bonds Payable	100,000	
Capital Purchase Payable	<u>18,704</u>	
		118,704

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities. The amount reported is the change in deferred tax revenues from last year.

Taxes Receivable - Current	510,056	
Taxes Collected:		
July - December, 2006	<u>(499,751)</u>	
		<u>10,305</u>

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early.

Sick Leave	(282)	
Early Retirement	<u>(41,352)</u>	
		<u>(41,634)</u>

\$ (206,960)

Change in net assets of governmental activities

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2008

ENTERPRISE FUNDS	
FOOD SERVICE	
FUND	
\$	3,876
	350
	866
	78
	<u>5,170</u>
	23,218
	<u>(11,609)</u>
	11,609
\$	<u>16,779</u>
	11,609
	<u>5,170</u>
	16,779
\$	<u>16,779</u>

ASSETS:

Current Assets:

Cash and Cash Equivalents

Inventory of Supplies

Inventory of Stores Purchased for Resale

Inventory of Donated Food

Total Current Assets

Capital Assets:

Machinery and Equipment--Local Funds

Less: Accumulated Depreciation

Total Noncurrent Assets

TOTAL ASSETS

NET ASSETS:

Invested in Capital Assets

Unrestricted Net Assets

Total Net Assets

TOTAL LIABILITIES AND NET ASSETS

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>ENTERPRISE FUNDS</u> <u>FOOD SERVICE</u> <u>FUND</u>
Operating Revenue:	
Sales:	\$ 28,944
To Pupils	4,364
To Adults	12
Other	<u>33,320</u>
Total Operating Revenue	
Operating Expenses:	
Food Service:	27,948
Salaries	14,159
Employee Benefits	2,248
Supplies	30,777
Cost of Sales - Purchased Food	5,184
Cost of Sales - Donated Food	1,935
Depreciation - Local Funds	<u>82,251</u>
Total Operating Expenses	<u>(48,931)</u>
Operating Loss	
Nonoperating Revenue:	
State Sources:	431
Cash Reimbursements	
Federal Sources:	23,203
Cash Reimbursements	5,142
Donated Food	<u>28,776</u>
Total Nonoperating Revenue	<u>(20,155)</u>
Loss Before Transfers	17,500
Transfers In	(2,655)
Change in Net Assets	19,434
Net Assets - Beginning	<u>\$ 16,779</u>
Net Assets - Ending	<u><u>16,779</u></u>

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

Cash Flows from Operating Activities:

Receipts from Customers
Payments to Suppliers
Payments to Employees

Net Cash Used by Operating Activities

Cash Flows from Noncapital Financing Activities:

Cash Reimbursements - State
Cash Reimbursements - Federal
Operating Transfers - In

Net Cash Provided by Noncapital Financing Activities

Net Increase in Cash and Cash Equivalents

Cash and Cash Equivalents at Beginning of Year

Cash and Cash Equivalents at End of Year

Net Increase in Cash and Cash Equivalents

ENTERPRISE FUNDS	
FOOD SERVICE	
FUND	
\$	33,320
	(33,655)
	(43,191)
	(43,526)
	858
	23,203
	17,500
	41,561
\$	(1,965)
\$	5,841
	3,876
\$	(1,965)

**RECONCILIATION OF OPERATING
LOSS TO NET CASH USED BY
OPERATING ACTIVITIES:**

Operating Loss

Adjustments to Reconcile Operating Loss to

Net Cash Used by Operating Activities:

Depreciation Expense

Noncash Cost of Sales-Commodities

Change in Assets and Liabilities:

Inventories

Accrued Wages Payable

Net Cash Used by Operating Activities

Noncash Investing, Capital and Financing Activities:

Value of Commodities Received

\$	(48,931)
	1,935
	5,184
	(630)
	(1,084)
\$	(43,526)
\$	5,142

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	PRIVATE-PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS:		
Cash and Cash Equivalents	\$ 79,397	\$ 25,511
 TOTAL ASSETS	 \$ 79,397	 \$ 25,511
LIABILITIES:		
Amounts Held for Others	\$ -	\$ 25,511
 NET ASSETS		
Held in Trust for Scholarships	\$ 79,397	\$ -
 TOTAL LIABILITIES AND NET ASSETS	 \$ 79,397	 \$ 25,511

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	PRIVATE-PURPOSE TRUST FUNDS
ADDITIONS:	
Other Additions	\$ 3,121
Total Additions	<u>3,121</u>
DEDUCTIONS:	
Trust Deductions for Scholarships	<u>2,891</u>
Total Deductions	<u>2,891</u>
Change in Net Assets	230
NET ASSETS - BEGINNING	<u>79,167</u>
NET ASSETS - ENDING	<u><u>\$ 79,397</u></u>

The accompanying notes are an integral part of these financial statements.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Reporting Entity:

The reporting entity of Iroquois School District No. 2-3, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on the organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to government entities in the United States of America.

b. Basis of Presentation:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the School District. Governmental activities generally are financed through taxes, intergovernmental

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets).

Net assets are displayed in three components, as applicable, invested in capital assets, net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

1. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding the capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund: A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund: A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance that reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund: A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Debt Service Fund Types - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The Bond Redemption Fund-- A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund: A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains several agency funds for various class years, clubs, and athletic teams which account for the monies earned for the various class, club or team projects.

Private-Purpose Trust Fund Types - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains two private-purpose trust funds, their purposes are for scholarships.

b. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Measurement Focus and Basis of Accounting: (cont'd)

Measurement Focus:

Government-Wide Financial Statements: In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements: In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-Wide Financial Statements: In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements: All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Iroquois School District 2-3, the length of that cycle is sixty days. The revenues which are accrued at June 30, 2008 are grants due from state and federal government.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

c. Measurement Focus and Basis of Accounting: (cont'd)

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The governmental business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-Wide Financial Statements: In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements: Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "due from" asset accounts) are considered "available spendable resources."

e. Inventory:

Inventory is valued at the lower of cost or market in the Food Service Fund. The cost valuation method is actual cost. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, Food Service Fund inventory items are initially recorded as assets and charged to expense in the various functions or government as they are consumed.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

e. Inventory: (cont'd)

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. No material inventories were on hand at June 30, 2008.

f. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at the estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2008 balance of capital assets for governmental activities and business-type activities are all valued at original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

f. Capital Assets: (cont'd)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
	\$ --	--	--
Land	\$ --	--	--
Land Improvements	\$ 5,000	Straight-line	10-20 years
Buildings	\$ 5,000	Straight-line	50-75 years
Machinery & Equipment	\$ 5,000	Straight-line	5-20 years

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements: In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of capital outlay certificates and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources) and payment of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is the accrual basis, the same in the fund statements as it is in the government-wide statements.

h. Program Revenues:

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

h. Program Revenues: (cont'd)

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Accumulated Unpaid Vacation and Sick Leave:

Annual leave is earned by the employees at the rate of ten to twenty days per year depending on position. Upon termination, employees are not entitled to receive compensation for their accrued annual leave balance.

Sick leave is earned by the employees at the rate of ten to fifteen days per year depending on position. Upon termination, certified employees are entitled to receive \$10 per day for unused sick leave days if they have worked at least two years in the School District and leave the School District.

k. Deferred Revenue:

Under the modified accrual basis of accounting, receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

1. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. The enterprise fund has access to its cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

m. Equity Classifications:

Government-Wide Financial Statements: Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements: Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

n. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

o. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Investments - In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-loan fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (CONT'D)

Interest Rate Risk - The School District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the General Fund for all governmental funds.

The United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be recorded in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

3. PROPERTY TAX:

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is intended to be used to finance the

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

3. PROPERTY TAX: (CONT'D)

current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future fiscal year.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the fiscal year ended June 30, 2008 is as follows:

Primary Government:

	Balance 7/01/07	Increases	Decreases	Balance 6/30/08
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 16,630	\$ --	\$ --	\$ 16,630
Capital assets, being depreciated:				
Buildings	1,859,091	--	--	1,859,091
Improvements other than Buildings	22,950	--	--	22,950
Machinery and Equipment	176,728	17,807	5,838	188,697
Totals	2,058,769	17,807	5,838	2,070,738
Less accumulated depreciation for:				
Buildings	513,571	37,182	--	550,753
Improvements other than buildings	7,650	1,530	--	9,180
Machinery and Equipment	99,578	32,665	4,710	127,533
Total accumulated Depreciation	620,799	71,377	4,710	687,466
Total capital assets, being depreciated, net	1,437,970	(53,570)	1,128	1,383,272
Governmental activity capital assets, net	\$ 1,454,600	\$ (53,570)	\$ 1,128	\$ 1,399,902

During FY08, additions to capital assets included an electronic sign, bus cameras and library books.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Depreciation expense for FY08 was charged to functions as follows:

Governmental activities:	\$ 42,693
Instruction	17,610
Support Services	11,073
Cocurricular activities	<u>\$ 71,376</u>
Total depreciation expense-governmental activities	

	Balance 7/01/07	Increases	Decreases	Balance 6/30/08
Business-type activities:				
Capital assets, being depreciated:				
Machinery and Equipment	\$ 23,218	\$ --	\$ --	\$ 23,218
Totals	<u>23,218</u>	<u>--</u>	<u>--</u>	<u>23,218</u>
Less accumulated depreciation for:				
Machinery and Equipment	9,674	1,935	--	11,609
Total accumulated Depreciation	<u>9,674</u>	<u>1,935</u>	<u>--</u>	<u>11,609</u>
Total capital assets, being depreciated, net	<u>13,544</u>	<u>(1,935)</u>	<u>--</u>	<u>11,609</u>
Business-type activity capital assets, net	<u>\$ 13,544</u>	<u>\$ (1,935)</u>	<u>\$ --</u>	<u>\$ 11,609</u>

5. LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	Balance 7/01/07	Increases	Decreases	Balance 6/30/08	Amount Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 620,000	\$ --	\$ 100,000	\$ 520,000	\$ 100,000
Capital Purchase Payable	28,640	--	18,705	9,935	9,935
Compensated Absences	3,700	1,946	1,664	3,982	--
Early Retirement Payable	--	41,352	--	41,352	41,352
	<u>\$ 652,340</u>	<u>\$ 43,298</u>	<u>\$ 120,369</u>	<u>\$ 575,269</u>	<u>\$ 151,287</u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

5. LONG-TERM LIABILITIES: (CONT'D)

Compensated absences for governmental activities typically have been liquidated from the General and Special Education Funds.

Debt Payable at June 30, 2008 is comprised of the following:

General Obligation Bonds:

The Iroquois School District No. 2-3 issued \$1,000,000 of General Obligation Bonds, Series 2001 on September 1, 2001. The bonds are payable from September 1, 2001 through September 1, 2012 with fixed interest rates from 3.5% to 4.25% that vary depending on the term of maturity. The Bond Redemption Fund makes payment on this debt.

\$ 520,000

\$ 3,982

Compensated Absences

Early Retirement Payable:

The district maintains an insurance for retired Employees, which allows those meeting certain qualifications to receive 70% of their base salary over a seven month period. As of end of the fiscal year 2008, three employees retired and will receive benefits in FY09. Early Retirement Benefits payable for government activities typically have been liquidated from the General Fund.

\$ 41,352

Financing (Capital Acquisition) Leases:

The Iroquois School District No. 2-3 entered into a lease-purchase agreement to buy computers on an installment plan on 6/7/07. The lease/purchase agreement is payable June 20, 2007 through June 30, 2009 with an imputed interest rate of 3.37%. The Capital Outlay Fund makes payment on this debt.

\$ 9,935

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$28,844
Interest	<u>1,966</u>
TOTAL	<u>\$30,810</u>

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

5. LONG-TERM LIABILITIES: (CONT'D)

The annual requirements to amortize the General Obligation Bonds and capital lease/purchase agreements outstanding at June 30, 2008, are as follows:

	Qualified Zone Academy Bonds		Capital Lease/ Purchase Agreement		Total
	Principal	Interest	Principal	Interest	
2009	100,000	21,600	9,935	335	131,870
2010	100,000	17,550	--	--	117,550
2011	100,000	13,450	--	--	113,450
2012	100,000	9,300	--	--	109,300
2013	120,000	2,550	--	--	122,550
	<u>\$ 520,000</u>	<u>\$ 64,450</u>	<u>\$ 9,935</u>	<u>\$ 335</u>	<u>\$ 594,720</u>

6. OPERATING LEASE:

The District entered into an agreement to lease a copier for a sixty (60) month period in December 2005. The monthly payment is \$320 with provisions for adjustments based on copier usage, etc. The agreement contains various covenants, restrictions, and provisions. Payments are made from the Capital Outlay Fund. The minimal rental payments are follows:

<u>Year</u>	<u>Amount</u>
2008	3,840
2009	3,840
2010	3,840
2011	1,920

7. INTERFUND ACTIVITY:

Transfers to/from other funds at June 30, 2008, consist of the following:

\$ 9,814	Transfers from the other governmental funds to the General Fund for income earned on deposits.
17,500	Transfer from the General Fund to the Food Service Fund to help finance operations.
<u>\$ 27,314</u>	

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

8. RESTRICTED NET ASSETS:

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 370,480
Special Education	Law	142,892
Pension	Law	72,481
Debt Service	Law	254,306
Food Service	Federal Regulation	5,170
		<u>\$ 845,329</u>

9. DESIGNATED FUND BALANCES:

As authorized by SDCL 13-11-2, the school board has determined that a year-end minimum unreserved fund balance of \$215,227 is necessary to protect the school district's cash liquidity from July 1, through mid-November of the subsequent fiscal year. This amount is reported as Unreserved Fund Balance Designated for Cash Flow Funding in the affected funds.

10. RETIREMENT PLAN:

All employees, except for non-contracted staff, participate in the South Dakota Retirement System, (SDRS) a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the years ended June 30, 2008, 2007, and 2006 were \$42,906, \$40,698, and \$40,697, respectively, equal to the required contributions each year.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

11. JOINT VENTURES:

The school participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Arlington School District No. 38-1	3.91%
Britton-Hecla School District No. 45-4	6.23%
Castlewood School District No. 28-1	3.37%
Clark School District No. 12-2	4.76%
DeSmet School District No. 38-2	3.49%
Deubrook School District No. 5-2	4.77%
Deuel School District No. 19-4	6.05%
Elkton School District No. 5-3	3.70%
Enemy Swim	1.56%
Estelline School District No. 28-2	3.37%
Florence School District No. 14-1	2.93%
Grant-Deuel School District No. 25-3	2.53%
Hamlin School District No. 28-3	7.24%
Henry School District No. 14-2	2.30%
Iroquois School District No. 2-3	2.08%
Lake Preston School District No. 38-3	2.51%
Rosholt School District No. 54-4	2.57%
Sioux Valley School District No. 5-5	6.66%
Sisseton School District No. 54-8	11.21%
South Shore School District No. 14-3	1.45%
Summit School District No. 54-6	1.66%
Waubay School District No. 18-3	2.30%
Waverly School District No. 14-5	1.97%
Webster School District No. 18-4	5.66%
Willow Lake School District No. 12-3	2.56%
Wilmot School District No. 54-7	3.16%

The co-op's governing board is composed of one representative from each member school, who is a school board member. The Board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The school retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Northeast Educational Services Cooperative.

At June 30, 2008, this joint venture had total fund equity of \$978,707 and no long-term debt.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

12. RISK MANAGEMENT:

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2008, the School District managed its risks as follows:

Employee Health Insurance

The school district joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The school district pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The school district does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The School District purchases all of the school's liability insurance from a commercial carrier except for School Leaders Errors and Omissions, which the school has through the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage.

The agreement with the ASBSD-PLF provides that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The school district carries a \$5,000 deductible for the coverage School Leaders Errors and Omissions. Settled claims resulting from these risks have not exceed the liability coverage over the past three years.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

12. RISK MANAGEMENT: (CONT'D)

Workmen's Compensation

The School District purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2008, no claims were paid for unemployment. At June 30, 2008, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

13. CONSORTIUM INFORMATION:

The School District participates in the Dewal Perkin's Consortium for the purpose of providing educational services to the member school districts.

The members of the consortium are as follows with each member district having an equal share:

Arlington School District No. 38-1
DeSmet School District No. 38-2
Willow Lake School District No. 12-3
Sioux Valley School District No. 5-5
Lake Preston School District No. 38-3

Iroquois School District No. 2-3
Elkton School District No. 5-3
Deuel School District No. 19-4
Waubay School District No. 18-3
Wilmot School District No. 54-7

The vocational instructors from each participating school district request funds, which are approved by the state. Any allocation of and spending of funds is also approved by the state. The Willow Lake School District acts as the fiscal agent for this consortium.

Financial data for this venture is available from the Willow Lake School District. At June 30, 2008, Iroquois School District had no fund equity in this venture and no long-term debt.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
 IROQUOIS SCHOOL DISTRICT NO. 2-3
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
Revenues:		
Revenue from Local Sources:		
Taxes:	\$ 625,351	\$ 625,351
Ad Valorem Taxes	2,000	2,000
Prior Years' Ad Valorem Taxes	1,400	1,400
Tax Deed Revenue	19,000	19,000
Gross Receipts Taxes	1,500	1,500
Penalties and Interest on Taxes	10,000	10,000
Earnings on Investments and Deposits		
Cocurricular Activities:	17,000	17,000
Admissions		
Other Revenue from Local Sources:	16,500	16,500
Services Provided Other LEA's	2,000	2,000
Other		
Revenue from Intermediate Sources:		
County Sources:	22,000	22,000
County Apportionment	1,000	1,000
Revenue in Lieu of Taxes	-	-
Other Intermediate		
Revenue from State Sources:		
Grants-in-Aid:	562,800	562,800
Unrestricted Grants-in-Aid		
Revenue from Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid Received from Federal	69,267	69,267
Government Through the State	-	-
Other Federal Revenue		
Total Revenue	1,349,818	1,349,818

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
-------------------------------------	---

\$	599,134	\$	(26,217)
	1,398		(602)
	-		(1,400)
	21,692		2,692
	991		(509)
	3,272		(6,728)
	10,524		(6,476)
	16,852		352
	1,603		(397)
	16,741		(5,259)
	2,600		1,600
	1,454		1,454
	506,148		(56,652)
	72,727		3,460
	3,672		3,672
	1,258,808		(91,010)

REQUIRED SUPPLEMENTARY INFORMATION
 IROQUOIS SCHOOL DISTRICT NO. 2-3
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
Expenditures:		
Instruction:		
Regular Programs:	357,400	365,600
Elementary	82,100	82,100
Middle School	334,600	349,300
High School		
Special Programs:	67,817	67,817
Educationally Deprived		950
Postsecondary Occupational Programs:	-	
Skills Enhancement		
Support Services:		
Pupils:	600	600
Attendance and Social Work Services	200	200
Guidance		
Support Services - Instructional Staff:	650	650
Improvement of Instruction	58,325	58,325
Educational Media		
Support Services - General Administration:	40,325	40,575
Board of Education	31,775	31,775
Executive Administration		
Support Services - School Administration:	62,250	62,250
Office of the Principal	680	680
Other		
Support Services - Business:	46,175	46,175
Fiscal Services	170,151	170,151
Operation and Maintenance of Plant	171,500	171,800
Pupil Transportation		
Support Services- Central Staff	500	500
Community Services:	6,400	6,400
Direction		
Nonprogrammed Charges:	1,000	1,000
Payments to State - Unemployment		
Cocurricular Activities:	21,100	23,700
Male Activities	21,100	21,100
Female Activities	20,000	20,000
Transportation	11,780	13,430
Combined Activities	15,000	15,000
Contingencies		(15,000)
Amount Transferred (Enter as Negative)	1,521,428	1,535,078
Total Expenditures	(171,610)	(185,260)
Excess of Revenue Over (Under) Expenditures		
Other Financing Sources (Uses):		
Transfers In	15,000	17,500
Transfers Out	15,000	17,500
Total Other Financing Sources	(186,610)	(202,760)
Net Change in Fund Balances	327,590	327,590
Fund Balance - Beginning	\$ 140,980	\$ 124,830
Fund Balance - Ending		

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
-------------------------------------	---

364,018	1,582
70,399	11,701
355,671	(6,371)
59,240	8,577
-	950
-	600
2,600	(2,400)
-	650
52,506	5,819
36,601	3,974
28,787	2,988
57,426	4,824
653	27
41,124	5,051
160,002	10,149
158,620	13,180
284	216
7,348	(948)
-	1,000
23,638	62
20,430	670
21,707	(1,707)
12,936	494
-	15,000
-	(15,000)
1,473,990	61,088
(215,182)	(29,922)
9,814	9,814
(17,500)	-
(7,686)	9,814
(222,868)	(20,108)
327,590	-
\$ 104,722	\$ (20,108)

REQUIRED SUPPLEMENTARY INFORMATION
 IROQUOIS SCHOOL DISTRICT NO. 2-3
 BUDGETARY COMPARISON SCHEDULE
 CAPITAL OUTLAY FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
Revenues:		
Revenue from Local Sources:		
Taxes:	\$ 174,000	\$ 174,000
Ad Valorem Taxes	200	200
Prior Years' Ad Valorem Taxes	300	300
Penalties and Interest on Taxes	-	-
Earnings on Investments and Deposits	174,500	174,500
Total Revenue		
Expenditures:		
Instruction:		
Regular Programs:	21,000	33,300
Elementary	5,000	5,000
Middle School	13,000	14,400
High School		
Support Services:		
Support Services - Instructional Staff:	4,500	7,600
Educational Media		
Support Services - General Administration:	500	1,400
Board of Education	500	1,600
Executive Administration		
Support Services - School Administration:	500	500
Office of the Principal		
Support Services - Business:	3,000	3,000
Fiscal Services	50,000	50,000
Facilities Acquisition & Construction	20,000	38,100
Operation and Maintenance of Plant	27,000	28,000
Pupil Transportation	5,000	5,000
Food Service		
Support Services - Central:		
Staff	30,000	30,000
Debt Services		
Cocurricular Activities:	5,000	5,000
Male Activities	5,000	5,000
Female Activities	7,000	7,000
Transportation	1,000	1,000
Combined Activities		
Total Expenditures	198,000	235,900
Excess of Revenue Over (Under) Expenditures	(23,500)	(61,400)
Other Financing Sources (Uses):		
Transfer Out		
Total Other Financing Sources (Uses)	(23,500)	(61,400)
Net Change in Fund Balances	430,085	430,085
Fund Balance - Beginning	\$ 406,585	\$ 368,685
Fund Balance - Ending		

ACTUAL AMOUNTS (BUDGETARY BASIS)		VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)	
\$	177,058	\$	3,058
	280		80
	290		(10)
	6,281		6,281
	183,909		9,409
	37,311		(4,011)
	2,148		2,852
	30,561		(16,161)
	7,563		37
	1,368		32
	1,520		80
	-		500
	4,913		(1,913)
	40,511		9,489
	55,111		(17,011)
	27,922		78
	-		5,000
	244		(244)
	19,618		10,382
	4,832		168
	3,611		1,389
	-		7,000
	-		1,000
	237,233		(1,333)
	(53,324)		8,076
	(6,281)		(6,281)
	(6,281)		(6,281)
	(59,605)		1,795
	430,085		-
\$	370,480	\$	1,795

REQUIRED SUPPLEMENTARY INFORMATION
 IROQUOIS SCHOOL DISTRICT NO. 2-3
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL EDUCATION FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
Revenues:		
Revenue from Local Sources:		
Taxes:	\$	\$
Ad Valorem Taxes	163,000	163,000
Prior Years' Ad Valorem Taxes	143	143
Penalties and Interest on Taxes	200	200
Earnings on Investments and Deposits	-	-
Revenue from State Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid	3,303	3,303
Revenue from Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid Received from Federal Government Through the State	50,689	50,689
Total Revenue	217,335	217,335
Expenditures:		
Instruction:		
Special Programs:		
Programs for Special Education	117,300	128,300
Support Services:		
Pupils:		
Guidance	1,300	1,300
Psychological	21,620	21,620
Speech Pathology	43,800	43,800
Student Therapy Services	21,015	21,015
Special Education:		
Administrative Costs	8,000	8,000
Transportation Costs	4,300	10,400
Other Special Education Costs	-	100
Total Expenditures	217,335	234,535
Excess of Revenue Over (Under) Expenditures	-	(17,200)
Other Financing Sources (Uses):		
Transfer Out	-	-
Total Other Financing Sources (Uses)	-	-
Net Change in Fund Balances	-	(17,200)
Fund Balance - Beginning	116,338	116,338
Fund Balance - Ending	\$ 116,338	\$ 99,138

ACTUAL AMOUNTS (BUDGETARY BASIS)		VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)	
\$	154,672	\$	(8,328)
	235		92
	240		40
	2,355		2,355
			(3,303)
	54,469		3,780
	211,971		(5,364)
	111,996		16,304
	763		537
	12,873		8,747
	27,428		16,372
	12,508		8,507
	14,338		(6,338)
	1,998		8,402
	1,158		(1,058)
	183,062		51,473
	28,909		46,109
	(2,355)		(2,355)
	(2,355)		(2,355)
	26,554		43,754
	116,338		-
\$	142,892	\$	43,754

REQUIRED SUPPLEMENTARY INFORMATION
 IROQUOIS SCHOOL DISTRICT NO. 2-3
 BUDGETARY COMPARISON SCHEDULE
 PENSION FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
Revenues:		
Revenue from Local Sources:		
Taxes:	\$ 54,650	\$ 54,650
Ad Valorem Taxes	-	-
Prior Years' Ad Valorem Taxes	-	-
Penalties and Interest on Taxes	-	-
Earnings on Investments and Deposits	54,650	54,650
Total Revenue		
Expenditures:		
Instruction:		
Regular Programs:	16,000	16,000
Elementary Programs	5,000	5,000
Middle School Programs	16,000	16,000
High School Programs		
Special Programs:	8,500	8,500
Programs for Special Education		
Educationally Deprived		
Support Services:		
Support Services - Instructional Staff:	50	50
Improvement of Instruction	1,300	1,300
Educational Media		
Support Services - General Administration:	1,300	1,300
Executive Administration		
Support Services - School Administration:	3,000	3,000
Office of the Principal		
Support Services - Business:	1,000	1,000
Fiscal Services		
Support Services - Special Education:	400	400
Administrative Costs		
Community Services:	400	400
Direction		
Cocurricular Activities:	700	700
Male Activities	700	700
Female Activities	300	300
Combined Activities		
Total Expenditures	54,650	54,650
Excess of Revenue Over (Under) Expenditures	-	-
Other Financing Sources (Uses):		
Transfers Out	-	-
Net Change in Fund Balances	71,448	71,448
Fund Balance - Beginning	\$ 71,448	\$ 71,448
Fund Balance - Ending		

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
-------------------------------------	--

\$	43,917	\$	(10,733)
	52		52
	67		67
	1,178		1,178
	45,214		(9,436)

14,058	1,942
2,963	2,037
14,136	1,864

2,605	5,895
2,364	(2,364)

-	50
1,183	117

1,295	5
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2,838	162
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-	1,000
---	-------

377	23
-----	----

-	400
---	-----

384	316
622	78
178	122

43,003	11,647
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2,211	2,211
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(1,178)	(1,178)
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1,033	1,033
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71,448	-
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\$	72,481	\$	1,033
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REQUIRED SUPPLEMENTARY INFORMATION

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

1. BASIS OF PRESENTATION:

The financial statements prepared in conformity with accounting principles generally accepted in the United States of America present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the budgetary Required Supplementary Information Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

2. BUDGETS AND BUDGETARY ACCOUNTING:

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the first regular board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year. The proposed budget is published for public review no later than July 15 each year. Public hearings are held to solicit taxpayer input prior to the approval of the budget. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
- b. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted except as indicated in Item (d).
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

IROQUOIS SCHOOL DISTRICT NO. 2-3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

2. BUDGETS AND BUDGETARY ACCOUNTING: (CONT'D)

- e. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds.

No encumbrances were outstanding at June 30, 2008.

- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- g. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).